



Report to the Chairman, Subcommittee
on Oversight, Committee on Ways and
Means, House of Representatives

March 1990

TAX SYSTEM MODERNIZATION

IRS' Efforts to Improve Taxpayer Correspondence



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**Information Management and
Technology Division**

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March 22, 1990

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This report responds to your September 29, 1989, request for information on how the Internal Revenue Service's (IRS) Tax System Modernization program will improve IRS' handling of its large taxpayer correspondence inventory. Specifically, you wanted to know the extent to which the Tax System Modernization will provide quicker and more accurate responses to taxpayer correspondence. You also wanted information on the modernization time frames for delivering automated improvements to better handle correspondence at the service centers' adjustment/correspondence branches.¹ We have included other actions taken by IRS to provide you a more complete description of IRS' attention to its large correspondence inventory.

Results in Brief

IRS' 1989 monthly inventories of unanswered correspondence ranged between 323,000 and 740,000 pieces of correspondence. The ability of IRS' adjustment/correspondence branches to provide timely, accurate, and responsive answers to taxpayer correspondence has been the subject of much discussion in recent years.²

The Automated Inventory Control System has been identified by IRS as a planned part of its Tax System Modernization program. This system is intended to improve IRS' ability to provide more timely and accurate responses to taxpayer inquiries. However, the system has not yet been designed and the master plan for the modernization identifying this and other specific systems and their functions has not been completed. Until the plan's completion this September, definitive answers about the modernization's role in improving correspondence are not available. Therefore, it does not appear likely that any significant improvement will

¹Adjustment/correspondence branches in each of IRS' 10 service centers are responsible for responding to taxpayer correspondence. For example, the branches explain an action taken by IRS, respond to questions about a taxpayer's account balance, decide whether a penalty should be abated, or adjust a taxpayer's account by revising the amount of tax, penalty, or interest due.

²Tax Administration: IRS' Service Centers Need to Improve Handling of Taxpayer Correspondence (GAO/GGD-88-101, July 13, 1988).

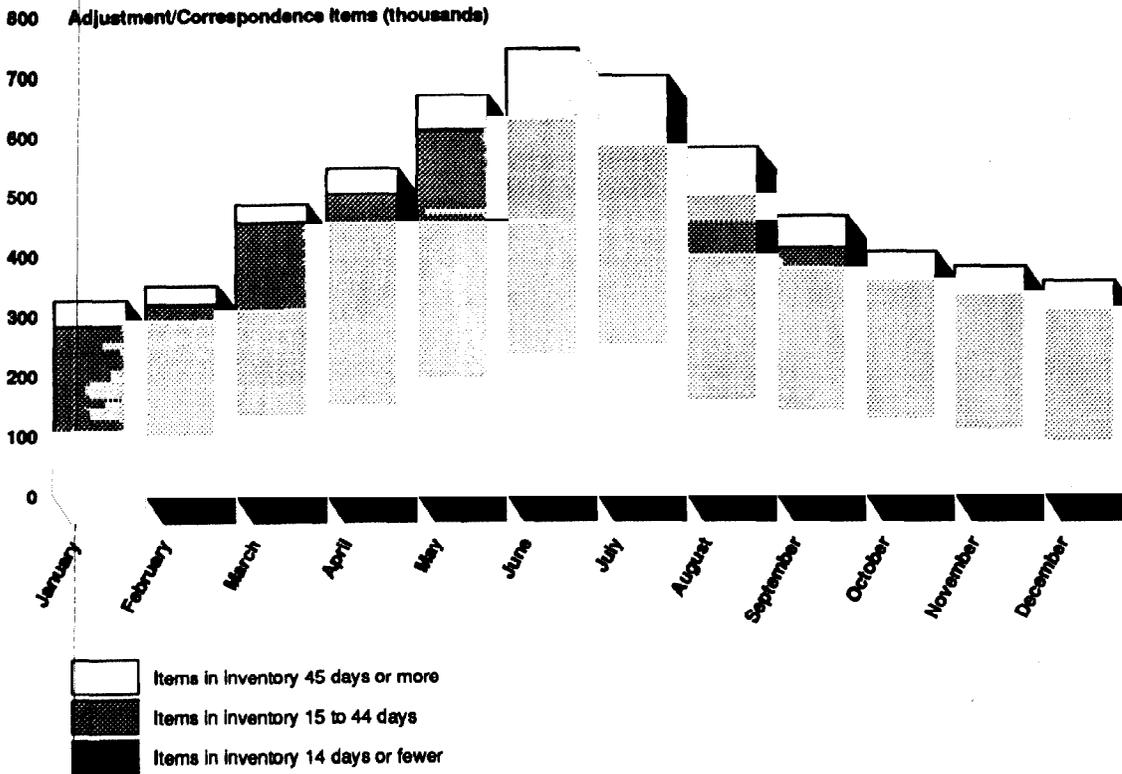
occur as a result of the modernization program until after 1992 when IRS' Automated Inventory Control System is expected to be in operation.

In the meantime, a number of activities not part of the modernization effort, such as using facsimile equipment and expanding telephone usage by examiners, are underway or planned to help the timeliness and accuracy of responses to taxpayer correspondence. We did not determine the impact of these activities on handling taxpayer correspondence.

Background

Correspondence from taxpayers arrives at IRS service centers and is routed to appropriate units within the centers, including the adjustment/correspondence branches. Figure 1 shows the increase and gradual reduction of the inventory handled by all branches during 1989. The inventory is divided according to the length of time each piece of correspondence has been in the inventory. IRS uses these aged inventories to help manage its responses to the correspondence. For example, IRS considers correspondence in the inventory for more than 45 days to be "overage," and has a goal of maintaining no more than 20 percent of its inventory in this category.

Figure 1: Monthly Adjustment/Correspondence Inventory Levels, 1989



According to IRS, the size of the inventory at the branches causes problems in making timely and accurate responses to taxpayers. As examples, IRS stated that taxpayer correspondence is sometimes lost or misrouted, responses to taxpayers are late and/or inaccurate, and inappropriate computer-generated notices from IRS units are sent to taxpayers while their accounts are active in the branches.³ These problems exacerbate the inventory problem by stimulating further correspondence from taxpayers.

In our July 1988 report, we found that 31 percent of the cases closed by branches in three service centers had critical problems involving incorrect adjustments and incorrect or unresponsive letters to taxpayers'

³Taxpayer accounts are active when examiners in the adjustment/correspondence branch are working to resolve a problem with the account, either in response to a letter of inquiry from a taxpayer or as a result of an IRS-generated problem for which the account was referred to the branch for resolution.

inquiries. An additional 16 percent had noncritical problems involving unclear or incomplete letters to taxpayers and incomplete actions by the branches.

Modernization Support for Tracking and Controlling Correspondence Is Scheduled to Begin in Late 1992

The Automated Inventory Control System is a planned Tax System Modernization project to help IRS manage and track incoming correspondence. It is scheduled for introduction in late 1992. Its purpose is to automate the tracking and control of all incoming mail to IRS service centers, including taxpayer correspondence and tax returns. IRS expects the system to reduce its inventory of unanswered correspondence through timely and accurate acknowledgment of taxpayer inquiries which, in turn, is expected to reduce subsequent letters from the same taxpayers. IRS also expects the system to help eliminate erroneous computer-generated notices sent to taxpayers by providing better control of active accounts.

The system, while part of IRS' tax modernization effort, has not yet been designed. As discussed in our February 1990 report,⁴ IRS' master plan for the modernization is scheduled to be completed in September 1990. At that time, specific systems are to be identified and their functions described. Consequently, until the master plan is completed, definitive answers about how Tax System Modernization will improve responses to taxpayer correspondence are not available.

IRS Has Other Activities in Place or Planned to Help Handle the Correspondence Inventory

According to IRS, it has taken a number of actions to correct problems and improve responsiveness to taxpayer correspondence. These actions were described by IRS in its March 1989 testimony before another subcommittee.⁵ The actions taken by IRS include (1) developing and using statistics to measure IRS' effectiveness in responding to taxpayer concerns, (2) using custom software developed within IRS to support examiners in composing appropriate and accurate responses to taxpayers, (3) using facsimile equipment to transmit documents to and from taxpayers and other IRS offices for quicker information exchanges, and (4) increasing the number of telephones available to examiners to handle taxpayer concerns immediately, thereby reducing the need for written correspondence.

⁴Tax System Modernization: IRS' Challenge for the 21st Century (GAO/IMTEC-90-13, Feb. 8, 1990).

⁵Treasury, Postal Service, and General Government Appropriations for Fiscal Year 1990: Hearings Before a Subcommittee of the Committee on Appropriations, House of Representatives.

IRS is also planning to reevaluate how it measures the volume of unanswered correspondence. According to a June 1989 document sent to regions and service centers, IRS is considering changes to its inventory-reporting criteria to distinguish between internal (IRS-generated) and external (taxpayer-generated) correspondence to help accurately assess the timeliness of IRS' responses to taxpayer correspondence. As of November 1989, the changes to its inventory-reporting criteria were still under consideration by IRS.

We did not assess the impact of the above activities on IRS' handling of its correspondence inventory.

Our review was performed during October and November 1989 at IRS' national office in Washington, D.C., and its service center in Andover, Massachusetts, in accordance with generally accepted government auditing standards. We interviewed officials at these locations, reviewed available documentation concerning taxpayer correspondence, and gathered information on the Tax System Modernization programs to identify any activities related to taxpayer correspondence.

We discussed the contents of this report with IRS' Assistant Commissioner for Returns Processing, and have included his comments where applicable.

As agreed with your office, unless you publicly announce the contents of this report sooner, we plan no further distribution until 30 days from the date of this letter. At that time, we will send copies to the Secretary of the Treasury, the Commissioner of Internal Revenue, and the Director of the Office of Management and Budget. Copies will also be made

available to other interested parties upon request. This report was prepared under the direction of Howard G. Rhile, Director, General Government Information Systems. He can be reached at (202) 275-3455. Other major contributors are listed in the appendix.

Sincerely yours,

A handwritten signature in cursive script that reads "Ralph V. Carlone". The signature is written in black ink and is positioned below the typed name.

Ralph V. Carlone
Assistant Comptroller General

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